

**STRATEGY
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**ECONOMIC AND POLITICAL LIBERALIZATION:
POLICY DEVELOPMENT**

BY

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ECONOMIC AND POLITICAL LIBERALIZATION: POLICY DEVELOPMENT

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UNCLASSIFIED

ABSTRACT

AUTHOR: Thomas E. Steffen (CDR) SC, USN
TITLE: Economic and Political Liberalization: Policy Development
FORMAT: Strategy Research Project
DATE: 15 April 1996 PAGES: 27 CLASSIFICATION: Unclassified

Foreign economic development and prosperity support the national security of the United States by contributing to domestic prosperity, increasing foreign social stability, and reducing the likelihood of armed conflict. While the value of economic and political liberalization may be universally accepted, problems in developing, implementing, and sustaining a consistent development policy to achieve these goals have made that policy elusive. This paper examines the tension between political and economic liberalization, introduces the continuum of legitimate paths toward economic liberalization, and demonstrates the practical use of this continuum as an analytic tool in the case of Slovenia. Finally, it concludes with some general policy recommendations for the United States.

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INTRODUCTION

The headline, "BOSNIAN ECONOMY CALLED PEACE THREAT," appeared on page 4 of the March 28, 1995, Washington Times, punctuating the linkage between economic development and social stability. Foreign economic development and prosperity support the national security of the United States by contributing to domestic prosperity, increasing foreign social stability, and reducing the likelihood of armed conflict. Increased domestic prosperity results from the expansion of lucrative overseas markets for U.S. goods resulting in increased jobs, lower priced goods, and increased revenues available to the federal government. Social stability can be directly linked to improved quality of life, the primary generic measure of economic development and growth. People enjoying prosperity are less likely to foment revolution or covet the relative prosperity of neighbors. Finally, a stable population enjoying economic prosperity is less likely to jeopardize that condition by using armed conflict in projecting national power and/or resolving international disputes. While the value of economic and political liberalization may be universally accepted, problems in developing, implementing, and sustaining a consistent development policy to achieve these goals have made that policy elusive. This paper examines the tension between political and economic liberalization, introduces the continuum of legitimate paths toward economic liberalization, and demonstrates the practical use of this continuum as an analytic tool in the case of Slovenia. Finally, it concludes with some general policy recommendations for the United States.

Ends, Ways & Means

The strategic analysis framework of *ends, ways, and means* helps clarify issues

surrounding the sometimes competing policies of political and economic liberalization. This framework gives structure to policy formation, execution, and refinement by clearly identifying policy goals (*ends*), alternative methods (*ways*) of achieving these goals, and the resources (*means*) associated with each alternative. It also serves to provide policy makers with analytic discipline and keeps them focused on the *ends*. This focus enables the policy maker to evaluate policy changes within the context of *ends*, *ways* and *means*, and reject changes that might appear sound when viewed out of context, but which fail to achieve the stated policy *ends*.

Two *ends* identified in the U.S. National Security Strategy are: 1) reduced direct and indirect threats to the United States, and 2) sustained economic growth and prosperity in the United States. As a matter of policy, the United States has embraced the relationship between political/social stability and economic prosperity and identified two possible *ways* of achieving these *ends*:

Broad-based *economic development* not only improves the prospects for *democratic development* in developing countries, but also expands the demand for US imports. Economic growth abroad can alleviate pressure on the global environment, reduce the attraction of illegal narcotics trade and improve the health and economic productivity of global populations.¹ (Emphasis added)

Few people disagree on the *ends*. Few experts disagree on the *ways*. Identification and selection of the proper mixture of *means*, however, can create a great deal of confusion, discussion, and argument.

There are three primary reasons for disagreement. First, there is an apparent circular relationship between political and economic liberalization. Specifically, is political liberalization a prerequisite to economic liberalization or is economic liberalization a

prerequisite for sustained political liberalization? Second, it is extraordinarily difficult to choose the method of transition. Specifically, what is the appropriate mix of economic assistance best suited for the target country or region, and what is the most efficient delivery system for this assistance? Honest experts disagree on both. Finally, policy confusion results from the inclination to use the economic element of power to achieve non-economic national goals, such as improved human rights. The undisciplined use of economics as an element of national power often results in policy decisions that soften, neutralize, or even reverse the intended impact of economic assistance. These results are acceptable only if, when evaluated within the *ends, ways and means* framework, they are recognized as the opportunity costs for implementing an alternative policy that pursues a more important *end*. Simply stated, policy confusion is a departure from the ends, ways, and means framework. To better understand these issues, economic/political liberalization, economic transitions, and policy confusion require further discussion.

Political versus Economic Liberalization

Which should come first, political liberalization or economic liberalization? Some argue that political liberalization must come first since free market economics is viewed as incongruous with authoritarian government. After all, authoritarian governance is based on dominant, centralized control while free market economics is the antithesis of government control. To achieve free market success, the government must relinquish political control to the people before the people can be expected to relinquish economic control to the "invisible hand" of the markets. For some, this argument makes sense, but others say that

democratization and subsequent transition to free market economies, while seemingly ideal, is problematic. Samuel Huntington postulates that "[Economic] Liberalization first, then democratization makes a great deal of sense for those wishing to achieve both."² He argues that economic liberalization requires a strong leader or government, and authoritarian governments are better suited to establish and enforce economic reforms. He goes on to say,

While the shift from authoritarian to a democratic political system can occur quickly, and even relatively painlessly, the shift from a heavily state-controlled economy to a market economy is far more painful and time consuming.³

A strong leader or strong legitimate central government is necessary to ensure the rules of free market economics are understood and followed. The case of the United States supports this point. Not too long after achieving independence, the Founding Fathers began to identify serious disconnects among local, state and federal governments that hindered personal and national economic growth. After much debate, they achieved consensus that the problems were caused by weak federal government. To correct these problems, the weak federal government established in the Articles of Confederation was replaced with the stronger, more centralized federal government ratified in the Constitution. Charles Wolf, Jr., states the dilemma with clarity: "Ironically, the principal responsibility for creating and extending the market's role while redefining and delimiting that of government rests with the government itself."⁴ A balance between control and freedom needs to be reached.

A cursory view of recent history in the former Soviet Union would appear to confirm the notion that economic liberalization quickly followed political liberalization. However, closer examination reveals that the Soviet government, in an attempt to revitalize the deeply troubled economy, pursued a variety of economic reforms well before the fall of communism.

Countries like Yugoslavia under Tito pursued remarkably liberal economic policies. It could be argued that it was the yearning for increased economic liberalization and dissatisfaction with the Soviet style economic programs that caused political liberalization.

When deciding the relative emphasis to be placed on promoting economic liberalization and political liberalization, it is in the best interests of the United States to assign primacy to economic liberalization for those countries like China who retain a command economy. Sustained economic reform, increased privatization, land reform, and expansion of personal property rights will naturally lead the population to seek incremental political liberalization. Incremental reform then builds momentum for political liberalization. This sequence might even be considered the most orderly and least disruptive path to sustained political liberalization. This path, however, takes time and patience, depending on evolution not revolution.

Economic Transition

If economic well being leads to political stability then it does not require a leap of faith to recognize that economic deprivation leads to political instability. Pursuit of a free market economy can be a daunting task, and a population disillusioned with economic reform could jeopardize political reform. In 1993, NATO prepared a report that addressed the issue of living standards in central/eastern Europe and the former Soviet Republics. The following excerpts from that report clearly state the risks posed by a slow transition to the widespread benefits of a free-market economy.

Many people thought, believed, that democracy and the market economy would automatically, and almost immediately, bring affluence and the standard of welfare they had brought to western populations throughout the cold war period. Unfortunately, the reality is far removed from these naive expectations.

If this kind of development continues for a long time, the risks of social and political reactions will increase.

...impoverishment and hardship can lead populations from disappointment to despair, from despair to wrath, and from wrath to violence and aggression.

...social bombs are also ticking on the Eastern side of the former iron curtain.⁵

What is the best method of achieving a successful transition to a free market economy? The optimal path, unfortunately, lies hidden on a continuum of paths which range from immediate reform to incremental reform. These extremes on the continuum are commonly referred to as shock therapy and gradualism. The first seeks to take the plunge immediately and accept a considerable amount of initial transition hardship. The goal of shock therapy is to get through the transition quickly and accelerate delivery of free-market benefits. Gradualism, on the other hand, seeks to soften the hardship of transition, but delays full delivery of free-market benefits.

Each of these approaches can trace their origins to proponents who take differing views of two types of economic relationships. The first relationship is between markets and government. Wolf describes this dichotomy as a choice between perfect markets and imperfect government or imperfect markets and perfect governments.⁶ Proponents of shock therapy believe the former and agree with Milton Friedman. Friedman postulated that markets only function properly if they are allowed to do so free of government interference. In his view, government intervention is incapable of improving market cycles and will only serve to prolong unnecessarily the associated human suffering. Proponents of gradualism believe the

latter and agree with Kenneth Galbraith. Galbraith sought to use the government to soften the human impact of market fluctuations. In his view, because the markets were imperfect, they should be influenced by appropriate government intervention to accentuate the good and minimize the bad. Perfect government improves imperfect markets.

The second relationship is among the components of economic transition and the disagreement is whether the components are independent or interdependent. If independent, then each component can be adjusted in isolation and improvement in one component will necessarily cause improvement in the whole. If interdependent, then all components must be adjusted together. Figure 1 depicts these components and their suggested relationships to each other.

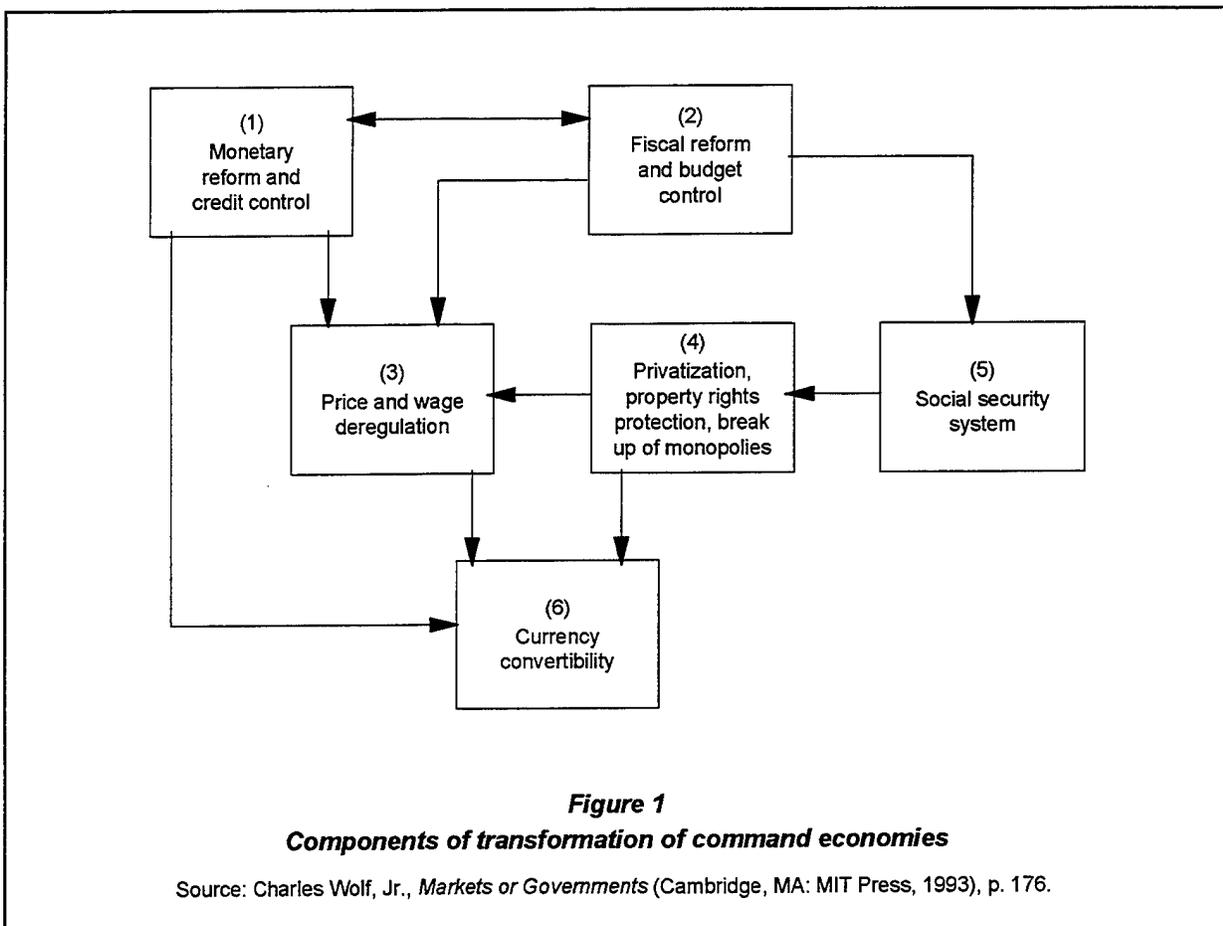
The proponents of shock therapy take a holistic or process-oriented view of economic performance. They believe the dependency among these components is so strong that changes in one element must be supported by complementary changes in all. This view postulates that failure to consider all components simultaneously will, at best, suboptimize reform and, at worst, cause further economic regression. Proponents of gradualism, on the other hand, believe the components are independent and that linear reform can be focused on a single component, followed by iterative changes in the other components. Their intent is to promote change while softening the human suffering of economic transition. They accept that change will take longer but believe that iterative changes better accommodate fundamental human needs. This accommodation then sustains the population's commitment to economic reform.

Reconciling these two views is impossible because they are based on competing assumptions about the relationship between governments and markets. Little if any data exist

to demonstrate conclusively which assumptions are correct. What seems reasonable, however, is that there is no universally correct approach to reform that will work for all countries. Rather, specific conditions in each country will determine whether shock therapy or gradualism is most likely to achieve success.

Policy Confusion

Historically, the U.S. has placed political requirements on foreign aid. The most familiar manifestation of this technique has been economic support for anticommunist



government systems. Many feel that by combining economic aid with the imposition of

political demands, the U.S. has, more often than not, squandered its investments. Joseph

Raffaele agrees:

The United States has been a principal party to frustration of revolutions that have occurred in developing nations of Latin America and Asia. In that role, it has also tended to frustrate their economic development.⁷

This demand for some allegiance to the U.S. in return for aid has also limited our involvement in world organizations designed to foster global economic development. While active participation in the World Bank, World Trade Organization, International Monetary Fund, General Agreement on Tariffs and Trade, and other international organizations provides the U.S. an indirect gateway to promoting economic development, these organizations do not always support U.S. interests. In 1984 the U.S. withdrew from the United Nations Educational, Scientific and Cultural Organization (UNESCO) for political reasons. The State Department explained that UNESCO has "extraneously politicized virtually every subject it deals with; has exhibited hostility toward basic institutions of a free society, especially a free market and a free press, and has demonstrated unrestrained budgetary expansion."⁸

Even when economic development policy is considered appropriate, it is typically the first victim of crisis response. One example is the economic embargo which has been the crisis response tool of choice throughout the 20th Century. The most familiar examples are the U.S.-led embargoes on Japan, North Korea, Cuba, Viet Nam, Iran, Iraq, and the former Yugoslavia. The rationale goes something like this. Destroy the economy, destabilize the regime, and encourage political liberalization. When stated in this way the flaw in the

strategy is apparent. The choice of economic embargo typically results from a clear departure from the strategic framework of *ends, ways* and *means*. The *ends* are reduced direct/indirect threats to the United States and sustained U.S. economic growth and prosperity. Two of the *ways* to achieve these *ends* are political and economic liberalization. An embargo which destroys an adversary's economy is policy failure, because it treats *ways*, political and economic liberalization, as mutually exclusive *ends*. Policy makers apparently fail to recognize that economic instability threatens all political systems. The destabilized economy that caused the political liberalization will remain long after the change in government and will threaten its longevity. U.S. policy makers tacitly choose to sacrifice one *way* for another when both are necessary to achieve the stated objective.

THE CONTINUUM AND THE CASE OF SLOVENIA

The alternate *means* to promote the ways of economic liberalization lie on a continuum, and as stated earlier, there seems to be no single, universally successful strategy that applies to all countries. Rather, there is a mix of choices for each situation, and success comes from identifying the most appropriate mix for a particular set of circumstances. If this mix of choices is considered a path, then the challenge becomes successful navigation of the continuum. Successful navigation first depends on understanding the structure of the continuum.

The continuum is three dimensional as Figure 2 illustrates. The first dimension contains the four elements of policy. The second dimension places a country on the continuum for each element, plus or minus. The third dimension is represented by

alternatives that are available to influence each element.

The four elements of economic development policy are:

- Human capital (Health, education, income)
- Civil relationships (Social tolerance, crime, civil discourse, problem resolution)
- Stage of industrial and resource development (infrastructure)
- Relationships and opportunities with neighboring countries (trade & cooperation)

These elements summarize a country's current situation and potential for development.

Within a specific element, a country's standing will lie somewhere on the continuum between least (minus) and most (plus) favorably developed. Second, there are a variety of alternatives, associated with each of the elements, which can change a country's current situation and potential for development. A properly selected alternative improves a country's economic standing within a given element. This improvement is graphically illustrated by movement to the right on the continuum.

The primary effort then becomes identifying the best mix of alternatives. Alternatives

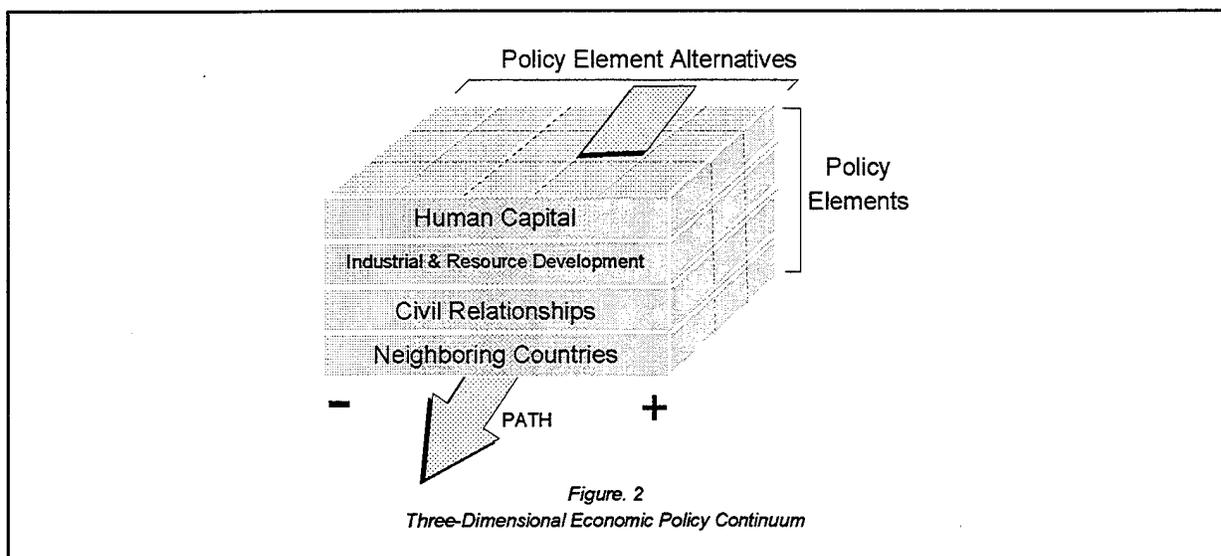


Figure. 2
Three-Dimensional Economic Policy Continuum

for each element must be evaluated simultaneously, to identify the mix of alternatives that generates the greatest synergy, and causes the greatest overall improvement in the target country's economy. This optimal mix defines the preferred policy that will result in the greatest improvement in a country's economic standing, within each element, on the continuum.

To illustrate, consider the element of human capital for a hypothetical underdeveloped country. Assume this country has considerable health problems, high infant mortality, low life expectancy, high population growth, low literacy rate, poor disease control, poor public sanitation facilities, triple-digit average annual income, and a variety of hostile ethnic groups. Because of these factors, the country would be placed far to the left on the human capital scale. Alternatives to address these problems range from Non-Governmental Organizations to administer health and education programs to direct funding of medical, agricultural, and education development. The synergy between alternatives within each element is important. If the existing government is corrupt or extraordinarily inefficient, the direct funding alternative becomes less effective.

Slovenia

Slovenia is a Balkan State, located on the Adriatic Sea, and bordering Italy to the west, Austria to the north, Hungary to the east, and Croatia to the south. It is slightly larger than New Jersey, covering seventy-eight hundred square miles with terrain which includes a coastal plain along the Adriatic, mountains in the northern and central regions, and rolling hills with river valleys in the east. The climate is mild on the coast and more harsh in the

central and eastern regions, marked by hot summers and cold winters.

| AD | SLOVENIAN HISTORY |
|-----------|---|
| 500's | Slovenes settle in northern Balkans |
| 627-658 | Early Slavic kingdom under Samo |
| 748-842 | Incorporation into the Frankish Empire, Conversion to Christianity |
| 843-1278 | Slovenia part of newly reconstituted Holy Roman Empire |
| 1278-1918 | Absorbed into Austrian Hapsburg Empire |
| 1918-1928 | Kingdom of Serbs, Croats, and Slovenes |
| 1929-1939 | Kingdom of Yugoslavia (South Slavs) |
| 1939-1945 | WWII. Slovenia partitioned between Italy and Germany |
| 1946 | Federal Peoples Republic of Yugoslavia |
| 1947-1952 | First 5-Year Plan, all sectors of economy under state control, forced collectivisation of agriculture. (Stalinist Economic Program) |
| 1957-1962 | Second 5-Year Plan, Socialist Self-Management, Decentralized management, Centralized Control. |
| 1963 | Market Socialism (increased economic liberalization) |
| 1976 | Business dissolved into smaller entities. Decentralized control increases emphasis on republics and provinces (federalism) |
| 1980 | Josip Broz Tito dies |
| 1990 | Profit based economic reform. No government bailouts. |
| 1990 | Demise of Yugoslav Communist Party. Elections won by non-Communists in Slovenia. |
| 1991 | Slovenian Independence |
| 1992 | Slovenia joins U.N., initiates privatization, first elections |

Source: *CIS and Eastern Europe on File* (New York: Facts on File, Inc., 1993), p. 2.54; Library of Congress, *Yugoslavia: A Country Study* (Washington: Government Printing Office, 1992), pp. 124-135.

Table 1

A Brief Slovenian History

The Slovenian analysis starts with a brief history and ends with summary evaluations of each of the economic elements. A comparison between Slovenia and members of the European Union (EU) will be used as an evaluation tool.⁹ Since Slovenia aspires to become a member of the EU, this method of comparison is considered useful. Table 1 provides a brief history.

Human Capital

Slovenians are described as an industrious, skilled, and well organized work force who display a great deal of individualism and respect for equality.¹⁰ A review of the human

capital statistical summary, provided in Table 2, indicates that Slovenia's quality of life indicators are among the highest in Eastern Europe. The most striking human capital statistics are Slovenia's homogeneity in ethnicity, religion, and language. Ethnic conflicts that plague the rest of the Balkans and Eastern Europe are not an issue in Slovenia, making it a more stable, low risk environment. The 99 percent literacy rate is shared equally between men and women and indicates significant work force potential and flexibility. Excluding Portugal, with an 83 percent literacy rate, EU countries have literacy rates between 96 percent and 99 percent. Infant mortality and population growth rates are average when compared to the EU, which has infant mortality rates that range from .7 to 1.1 percent of live births, and

| | | | |
|------------------|--|-------------------|--|
| Population: | 2,000,000 | Language: | 91% Slovene |
| Ethnicity: | 91% Slovene 3% Croat 2% Serb 1% Slavic Muslim 3% Other | Religion: | 94% Roman Catholic 2% Orthodox Catholic 1% Islam 3% Other |
| Birth Rate: | 1.181% (as a % of total population) | Infant Mortality: | .81% (as a % of live births) |
| Death Rate: | .95% (as a % of total population) | Pop. Growth Rate: | .23% |
| Life Expectancy: | 74 years | Literacy: | 99.2% |
| Per Capita GDP: | \$7035 (1994) | Unemployment: | 15.5% |
| GDP growth: | 5% (1994) | Inflation: | 20% (1994) |

Table 2
Human Capital Statistical Summary

Sources: "Slovenia", [information on-line]; available from <http://www.adfa.oz.au/cs/flg/wf93/si.html>; Internet; accessed on 4 December 1995; Economist Intelligence Unit, World Outlook 1995 (London: Economic Intelligence Unit, 1995), pp. 145-146; SKB Banka, Slovenia and Economic Outlook, [information on-line]; available from <http://www.skb.si/skb1-1.htm1>; Internet; accessed 4 December 1995.

population growth rates that range from negative growth to .7 percent. Slovenia's Gross Domestic Product growth rate is vigorous and, at a projected 5 percent in 1996, approaching take-off. However, GDP per capita is low when compared to the EU, which averages \$17,190 per capita GDP. Only Greece and Portugal have lower GDP per capita rates.

Slovenia's inflation rate is high compared to all members of the EU. The typical range of inflation rates is from 2 to 6 percent annually, except Greece and Portugal which are experiencing just over 16 percent and 10 percent respectively. Only Greece, Ireland, and Spain have higher unemployment rates. Inflation and unemployment are significant quality of life issues and difficult to manage due to their relationship with each other and to growth. As the economy grows, new jobs are created and unemployment decreases. Unfortunately, as growth and unemployment rates improve, the increased demand for money tends to stimulate inflation. Since a transition economy, by definition, seeks to achieve "take-off" growth, then the choice becomes one between inflation and unemployment.

Slovenia has chosen to minimize inflation at the expense of unemployment to stabilize the value of their currency and increase its appeal in international financial markets. Increased standing in the financial markets will result in increased capital investment, expansion of the economy, and eventually lower unemployment. This is a sound strategy and typical of free market economies. The Slovenian government projects 5 percent growth, 10 percent inflation, and 12.6 percent unemployment for 1995.¹¹

Slovenia's placement on the continuum for the element of Human Capital is just to the right of center. Policy which focuses on fundamental health, education, and population

growth issues is unwarranted. Rather, policies which support Slovenia's pursuit of low inflation and a stabilized currency are indicated.

Civil Relationships

Slovenians, by all accounts, are a tolerant, introspective people who value their cultural identity and individual quality of life over nationalism. Dominated by a variety of western cultures throughout the last twelve hundred years, their devotion to the Slovenian language and Slovenian literature has allowed them to evolve within these cultures, rather than revolt against them, and still maintain their identity. The most recent example of this "readiness to negotiate and compromise" occurred in 1989.¹² Even at this late date, Slovenia still sought increased freedom within the Yugoslav State. It was not until the Yugoslav federal government rejected these requests that Slovenia was forced to secede in 1990.

The Slovenian legal system is based on civil law and is supported by a constitution that guarantees freedom of speech, freedom of religion, the right to private property, and minority representation in government.¹³ Slovenians have taken these constitutional freedoms to heart. In 1985, "spontaneous movements espousing a radical settling of accounts with the remaining set of Bolshevik-Communism symbols became widespread. These groups advocated freedom of ideas and opinions, civilian control of the military, and a society that would be founded on respect for internationally recognized human rights."¹⁴ In 1989, support for freedom of speech was demonstrated when the Slovenian Supreme Court overruled the 1985 Yugoslavian ban of a radical political publication, *Mladina*. A variety of other laws have been adopted that establish western, free market protection for commercial enterprise.¹⁵

Slovenia has an urbanized society with just over 50 percent of the population residing in its cities.¹⁶ Housing problems and typical urban crime are present but Slovenians are generally peaceful and law abiding, demonstrating an affinity for cleanliness and organization that reflect the Germanic influence in their past. While most agree that Slovenia is a lawful society, some express concern that it is in danger of becoming a mere transit country for the drug and white slave trades carried out by the mafias of the east and west.¹⁷ Organized crime could pose a threat to Slovenia's internal security if it is allowed to gain a foothold.

Slovenia is by far the most westernized country in the Balkans or Eastern Europe. Their protection and defense of human and industrial rights, low crime, and urbanized society place it midway to the right on the policy continuum for Civil Relationships. This position indicates that foreign businesses will find a stable, low risk environment for capital investment and expansion. Policy should focus on differentiating between the peaceful life in Slovenia and the strife being experienced in the rest of the Balkans, and informing American businesses of the low risk, high return opportunities in Slovenia.

Industrial/Resource Development

Slovenia is a well developed country that is self-sufficient in energy production and maintains balanced imports and exports. Table 3 provides a statistical summary of industrial and resource development indicators. During the period of Yugoslav rule, technology advances in Slovenia lagged behind the West and now place technologically inferior Slovenian products at a competitive disadvantage in the Western European and US markets.¹⁸ Eastern European markets may accept these inferior products due to their availability and price, but long-term competitiveness depends on revitalization of Slovenian industry to

compete in the open western market.

Slovenia is centrally located, the gateway between East and West, and could leverage this position by expanding its transportation industry. Unfortunately, the U.N. embargo and war in Bosnia have drastically limited these opportunities. Before the break-up of the former Yugoslavia, Slovenia's traditional markets were in Serbia, Croatia, and Bosnia. Slovenia's success, despite the loss of these traditional markets, indicates that a return to normalcy in the southern Balkans would be a windfall for the Slovenian economy.

Slovenia's use of natural resources, balanced distribution of industrial and service industries, transportation network, and access to fuel and electricity place Slovenia left of center on the policy continuum for Industrial/Resource Development. Policy should focus on promotion of foreign capital investment, joint ventures, and retooling of industrial facilities and equipment. The goal of the policy should be to assist Slovenia in revitalizing its industrial base by developing up-to-date manufacturing facilities that are competitive in the world market, and initiatives to help exploit its location as a potential transportation hub.

Neighboring Countries

Slovenia borders Italy to the west, Austria to the north, Hungary to the east, and Croatia to the south. Historically, Slovenia has most closely identified with Western Europe and its relationship with Austria has had the greatest influence. This relationship with Western Europe causes southern Balkan countries to perceive the Slovenes as aloof. The dissolution of Yugoslavia, ethnic strife in the south, and the subsequent loss of these traditional export markets have caused Slovenia to turn again to Western Europe. Slovenia has vigorously, and so far successfully, pursued western markets and financing. Slovenia's

| | | | |
|-----------------------------------|--|------------------------------|---|
| Labor Force: | 52% Service 46% Industry 2% Agriculture | Land Use: | 45% Woodland 23% Other 20% Meadows & Pastures 10% Arable 2% Permanent Crops |
| Gross Material Product by Sector: | 68% Industry 26% Services 6% Agriculture | | |
| Natural Resources: | Lignite coal Lead Zinc | Mercury Uranium Silver | Forest |
| Structure of GDP 1993: | 30.99% Manufacturing and Mining 14.00% Trade, Hotels, Restaurants 13.66% Financial and Market Services 10.73% Health and Education 10.38% Government and Non-Profit Services 7.96% Transport, Storage and Communications 4.89% Agriculture, Forestry and Fishing 4.58% Construction 2.80% Electricity, Gas and Water | | |
| Transportation: | 10,525 km Paved Highways (1991) 1,200 km Railways (1991) 4 Airports with runways between 1,220m and 3659m 1 Seaport at Koper | | |
| Environment: | Sava River polluted w/ domestic and industrial waste Coastal waters polluted w/ heavy metals and toxic chemicals Forest damage near Koper due to air pollution | | |
| Other: | Crude Oil Pipeline Natural Gas Pipeline American Made Nuclear Power Plant Ground Transport Hub between Western Europe and Balkans | | |

Table 3
Industrial/Resource Development Statistical Summary

Sources: "Slovenia", [information on-line]; available from <http://www.adfa.oz.au/cs/flg/wf93/si.html>; Internet; accessed on 4 December 1995; Economist Intelligence Unit, World Outlook 1995 (London: Economic Intelligence Unit, 1995), pp. 145-146; SKB Banka, Slovenia and Economic Outlook, [information on-line]; available from <http://www.skb.si/skb1-1.htm1>; Internet; accessed 4 December 1995.

main trading partners are Germany, Italy, Croatia, Austria, and France. These five countries accounted for 71 percent of Slovenia's exports and 64 percent of its imports in the first half of 1995.¹⁹ In terms of financing, Germany (44.9 percent), Austria (20.7 percent), Italy (10.9 percent), and France (7.1 percent) account for 83.6 percent of the foreign direct investment in Slovenia.²⁰

Relationships with its neighbors are not all rosy, however. Italian nationalists are pressing for restitution for Italian property abandoned when sections of Trieste became part of Yugoslavia nearly forty years ago.²¹ Strained relations with Croatia center on border disputes, property rights, the shared ownership of a nuclear power plant and the honoring of commercial bank liabilities.²² These disagreements are unlikely to result in conflict, however they could interfere with rapid integration into the EU.

Slovenia's relationships with its neighbors and exploitation of opportunities in the West place it midway to the right on the policy continuum. It has clearly placed heavy emphasis on export markets and foreign investment to assist in its transition to a market economy. Appropriate policy alternatives include assistance in mediating international disputes, support for Slovenia's accelerated inclusion in the EU, and assistance in normalizing relations in the South which will reopen large, traditional markets for the Slovenian export economy.

The continuum has helped to identify economic issues that focus attention on Slovenia's requirements. Slovenia is located as follows on the policy continuum:

- Human capital: Average
- Civil relationships: Above Average

- Industrial and resource development: Below Average
- Relationships and opportunities with neighboring countries: Average

Even more importantly, the analysis determined that economic policy toward Slovenia should support its pursuit of low inflation, generate interest in the business community by differentiating between Slovenia and the rest of the Balkans, upgrade the industrial base and expand transportation opportunities, and fully support the rapid acceptance of Slovenia as a member of the EU.

RECOMMENDATIONS

So far, this paper has discussed the tension between political and economic liberalization, introduced the continuum of legitimate paths toward economic liberalization, and demonstrated its practical use as an analytic tool in the case of Slovenia. In this final section, four specific recommendations are offered for U.S. policy. Each of these recommendations helps deal with the issue of scarce resources.

It is reasonable to assume that there are insufficient resources in the U.S. to pursue the optimal economic development policy for every deserving country. So, given the scarcity of resources, what techniques can the policy maker employ to maximize the use of what little resources are available? I suggest four: (1) educate the U.S. taxpayer on the value of foreign economic development, (2) narrow the list of candidate countries, (3) use the continuum to evaluate candidate requirements and guide policy development, and (4) hold the recipient country accountable.

Economic and political liberalization are long-term strategies. Asking U.S. leaders to

adopt this strategic view is no small demand, since the politician who takes the long view may receive acclaim in the future, but risk reelection today. One way leaders might relieve some of the risk associated with strategic thinking is to get the support of the U.S. taxpayer, and the best way to do that is to educate the public on the issues. Failure to do so risks a disillusioned public that seeks new leaders and isolationist policies. Development policy is a long-term effort and anticipation of immediate rewards should be discouraged. The Pearson Commission pointed out that "...development will not normally create, nor should it be expected to create, economic windfalls for the donor country."²³ The government needs to undertake a significant educational initiative to ensure that citizens understand the issues. Only then will the government have access to sufficient and sustained good will of the public necessary to support these long-term policies.

The best method of narrowing the list of candidates is to evaluate each country on how they contribute to the interests of the United States. Contributions can be considered current or future. Current contributions evaluate a candidate country based on its current relationship with the United States. For example, Japan is a vital interest of the United States and policy should sustain or improve this relationship. Future contributions identify relationships that require cultivation now to achieve some future goal. Poland has potential as a large future market for U.S. goods. Slovenia could be considered to have potential because of the positive influence economic success in Slovenia might have on other eastern European economies. It could be the linchpin to accelerated expansion of political/economic liberalization in the entire region. Regardless of the method used, the policy maker needs to determine which relationships are most vital.

Once the countries are identified, use the continuum to help develop policy. As stated earlier, a variety of development alternatives exist and scarce resource may be a driving factor in the selection of the preferred alternative. If direct funding is not feasible, non-government funding, services-in-kind, or indirect support might be viable alternatives. Non-government funding could be generated if the United States supported a candidate country's bid for capital financing from a third country or world organization. Services-in-kind can take many forms, including agricultural aid, military aid, technical assistance, or commercial assistance. The U.S. could provide indirect support by encouraging the country to participate in economic organizations and free-trade arrangements (GATT, WTO), or encouraging U.S. private enterprise investment in the developing country. In 1994, President Clinton was quoted in *Business America* as saying,

Ultimately, the success of market reforms to the East will depend on more trade than aid. None of us has enough money to markedly change the future of those countries as they move to free market systems in the government coffers.[sic] They must grow and trade their way into full partnerships with us.²⁴

Finally, once the countries are selected and evaluated, and support alternatives are identified, target countries should be required to prepare a sound comprehensive economic development plan. Similar to the Marshall Plan, each country is made responsible for its own success and develops a plan with progress measures and sufficient safeguards against misapplication. In all cases, the potential of each individual country must be closely analyzed and a development program tailored to its specific needs in order to maximize the opportunity for success.

In the end economic and political development, as *ways* to execute the national

strategy, are complex, expensive, and a long-term approach to increased global stability. Failure of recently democratized countries to begin reaping the benefits of free market economies threatens their stability and increases the likelihood of political regression and violence. The U.S. should choose wisely and pursue burden sharing of economic and political development programs that target those countries which represent the greatest risk and opportunity. Current U.S. strategy demurs from direct developmental support, focusing instead on free trade initiatives with economies offering the greatest new export market potential. This is the correct approach. If the focus remains on the *ends* (stability and prosperity) and the ways (economic and political development), and takes a holistic and targeted approach to evaluating and selecting the *means*, then the likelihood of success dramatically increases.

ENDNOTES

1. The White House, *A National Security Strategy of Engagement and Enlargement* (Washington: The White House, 1995), p. 21.
2. Samuel P. Huntington, "Challenges Facing Democracy, What Cost Freedom," *Current* 353 (June 1993), pp. 25-26.
3. *Ibid.*, p. 24.
4. Charles Wolf, Jr., *Markets or Governments* (Cambridge, MA: MIT Press, 1993), p. 176.
5. Michel Gaspard, "Incomes and Living Standards in Central and Eastern Europe and the Former Soviet Republics: Recent Developments, Current Situation and Outlook," *NATO Economic Colloquium*, 2 July 1993 [report on-line]; available from scheurweghs@hq.nato.int; Internet, accessed 6 December 1995.
6. Wolf, p. 7.
7. Joseph A. Raffaele, *The Economic Development of Nations* (New York: Random House, 1971), pp. 348-349.
8. John P. Lovell, *The Challenge of American Foreign Policy* (New York: Macmillan, 1985), p. 305.
9. Sources for these data are: "Slovenia", [information on-line]; available from <http://www.adfa.oz.au/cs/flg/wf93/si.htm>; Internet; accessed on 4 December 1995; Economist Intelligence Unit, *World Outlook 1995* (London: Economic Intelligence Unit, 1995), pp. 145-146; SKB Banka, *Slovenia and Economic Outlook*, [information on-line]; available from <http://www.skb.si/skb1-1.html>; Internet; accessed 4 December 1995; William D. Coplin and Michael K. O'Leary, eds., "Europe: Countries of the European Union," in *Political Risk Yearbook 1995* (East Syracuse, NY: Political Risk Services, 1995). All statistics used in the Slovenian analysis reflect performance in 1993 unless otherwise indicated.
10. Jeremy Keller, "Newly Independent States," *Business America* 114, no. 8 (1993), p. 29.
11. Republic of Slovenia, Ministry of Foreign Affairs and Ministry of Economic Relations and Development, *Economic Report on Slovenia* 3 (3rd Qtr 1994), p. 1.
12. Library of Congress, p. 82.

13. Albert P. Blaustein and Gisbert H. Flanz, eds., "Constitution of Slovenia 23 December 1991," *Constitution of the Countries of the World* (Dobbs Ferry, NY: Oceana Publications, June 1993), pp. 3-13.

14. Peter Vodopivec, "Slovenes and Yugoslavia 1918-1991," *Eastern European Politics and Societies* 6, no. 3 (Fall 1992), p. 238.

15. Chamber of Economy of Slovenia, *Slovenia Your Partner* (Ljubljana, SI: 1994), p. 29 and 43.

16. *Discover Slovenia*, trans. Martin Cregeen (Ljubljana, SI: Cankarjeva založba, 1994), p. 122.

17. Paul Mojzes, "Balkan Travels: The Case of Slovenia," *Christian Century* 111, no. 8 (9 March 1994), p. 256.

18. Ibid.

19. SKB Banka, Slovenia and Economic Outlook, [information on-line]; available from <http://www.skb.si/skb1-1.html>; Internet; accessed 4 December 1995.

20. Ibid.

21. Robert G. Taylor, "Escape to Europe," *World Press Review* 40, no. 10 (October 1993), p. 35.

22. Economist Intelligence Unit, pp. 145-146.

23. Lester B. Pearson, *Report of the Commission on International Development* (New York: Praeger, 1969), p. 9. Reprinted in Sidney Dell, *International Development Policies* (Durham and London: Duke University Press, 1991), p. 2.

24. "Economies in Transition," *Business America* 115, no. 9 (September 1994), p. 84.

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